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UNCLAS MADRID 000683

SIPDIS

SENSITIVE

PASS TO USTR FOR SANFORD

E.O. 12958: N/A

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SUBJECT: SPAIN INCLINED TO BE FLEXIBLE ON FSC

REF: SECSTATE 40299

1. (SBU) We shared reftel letter and points with GOS contacts in Moncloa (the Spanish equivalent of the White House) and the Ministries of Economy and Foreign Affairs. Nicolas Lopez, Spain's 133 Committee titular, told us that while reconsideration of the March 1 retaliation is not possible, Spain and most other member states are inclined to view U.S. progress towards a legislative solution favorably. Lopez said member states feel that the March 1 retaliation will clearly convey the EU's interest in having the Foreign Sales Corporation (FSC) law repealed soon. He said he did not expect that the initial 5% tariff will have strong impact on U.S. exports given the current euro/dollar exchange rate, however he warned that given the monthly rate increase, it would not be wise to delay for long.

2. (SBU) Lopez said that member states have not formally discussed the three-year transition period. However, on the margins of 133 Committee meetings, most members have said "more than three years would not be acceptable." He added that Spain and most other member states would like to see the retaliation go away. He said if the U.S. legislation is reasonable, the EU will be likewise be reasonable in its response.

MANZANARES